



MEMORANDUM NOTE DE SERVICE

TO
À

Minister of Finance

Memo to the Minister or Minister's Staff

Min's Office Orig. + 5
DMO 4
Assoc. DM & G7 Deputy 1
EFP e-copy
C&C e-copy
LAW e-copy

FROM
DE

Paul Rochon

SUBJECT
OBJET

Canada's Youth Labour Market

Security classification Classification de sécurité
SECRET
Originator/Telephone number Auteur/Numéro de téléphone
Evan Capeluck Julie Turcotte
Our file Notre référence
Your file Votre référence
2018FIN467281
Date
JAN 12 2018

For information only.

Issue and Summary

In a recent speech, the Governor of the Bank of Canada expressed his concerns with regard to the difficulty faced by young people in finding high-quality and stable employment, citing the persistent weakness in labour force participation among youth and the increased difficulty in finding full-time positions. Improving the labour market situation for youth has been a key priority of the Government

In this context, this note provides a brief overview of recent developments in the youth labour market and discusses policy implications. Key findings are briefly outlined below:

- Overall, young Canadians are faring very well relative to both previous generations and their international peers in terms of being able to find employment.
- Some younger workers are facing more difficulty than in the past in accessing *full-time permanent* jobs, but it is not clear whether this reflects a true deterioration in their long-term prospects, an increase in the time it takes to acquire skills required by employers, or continued weakness in the labour market following the 2009 recession.
- with smaller differences in unemployment rates between youth and the general population in countries like Germany and Japan.
- Moreover, certain youth populations (e.g., recent immigrant youth, indigenous youth, and youth with disabilities) consistently perform worse on a wide range of labour-market indicators, reflecting lower levels of education and other barriers to employment.

ADM: Nick Leswick (369-3346)
Director: Claude Lavoie (369-5647)

Canada

s.21(1)(a)

s.21(1)(b)

s.69(1)(g) re: (d)

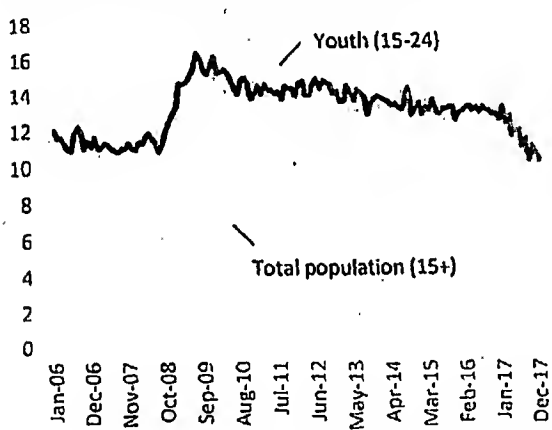


Background

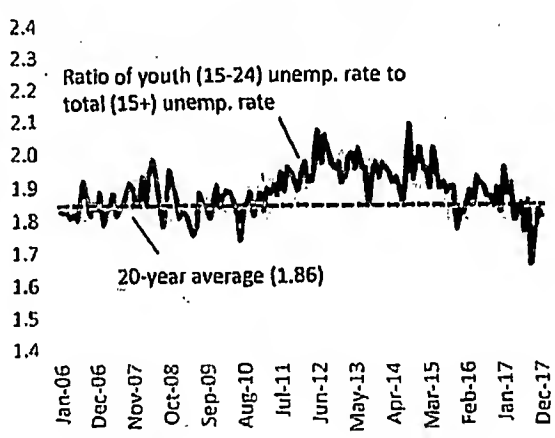
- Strong job creation over the last year has contributed to improvements in the youth labour market, with the unemployment rate of youth aged 15-24 falling to 10.3 per cent in December 2017 – below its pre-recession low of 10.9 per cent (Figure 1, Panel A).
- The unemployment rate for youth aged 15-24 is currently slightly less than two times higher than that of the total population (Figure 1, Panel B) – in line with its historical average. Regardless of economic conditions, youth face a higher risk of unemployment compared to the general population. Many youths are entering the labour market for the first time and have never held a job, making them more likely to be hired last during upturns, to be laid off first during downturns, and to voluntarily leave their jobs in search of a better match.

Figure 1: Unemployment rates, January 2006 to December 2017

Panel A: Unemployment rates by age, per cent



Panel B: Youth-to-total unemployment ratio



Source: Statistics Canada, Labour Force Survey; Department of Canada calculations.

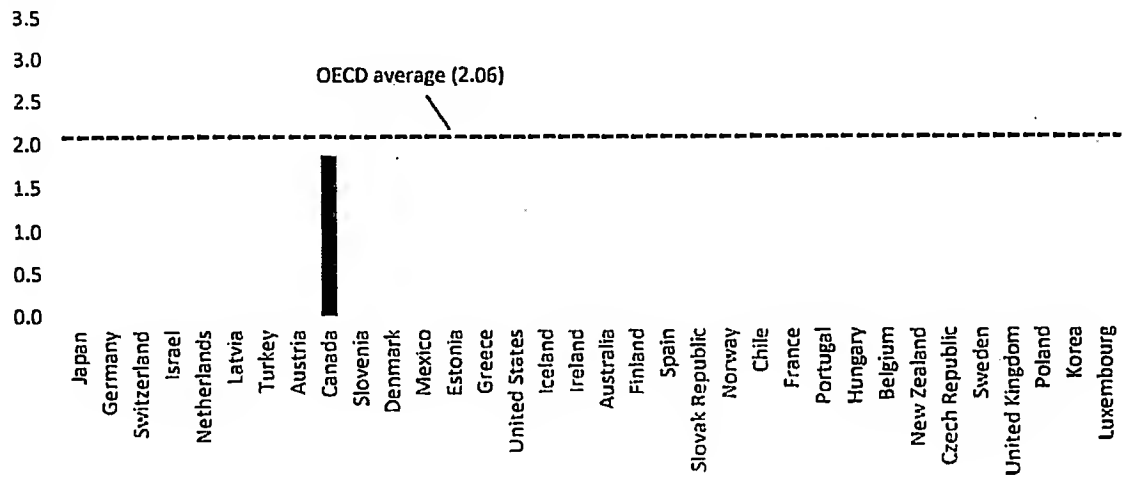
- Unemployment for youth is often an expected stage between finishing school and finding a job and is not necessarily detrimental, especially if it is short term. Indeed, while youth are more likely than adults to be unemployed, youth unemployment tends to be short-lived with nearly half of unemployed youths finding a job or leaving the labour force to go back to school within four weeks of becoming unemployed in 2017.

s.21(1)(a)

s.21(1)(b)

- Canada compares well internationally with a ratio of youth-to-total unemployment rates below the OECD average (Figure 2). However, some countries such as Japan and Germany have lower ratios of youth-to-total unemployment rates,
- On that front, participation in work-integrated learning, including internships and co-op programs, has been shown to facilitate the school-to-work transition and improve the labour-market outcomes of new graduates by equipping students with the experience needed to get a job and with a useful network of contacts.¹ More generally, more years of work experience plays an important role in helping young people fully integrate into the labour market.²

Figure 2: Ratio of youth-to-total unemployment rates across OECD countries, 2016



Source: OECD; Department of Canada calculations.

- As with the youth unemployment rate, the labour force participation of young Canadians compares favourably internationally, ranking 6th among OECD countries with a labour force participation rate of 63.7 per cent in 2016 compared to the OECD average of 47.2 per cent. Canada also ranks 6th among OECD countries in terms of the employment rate.
- Despite the lower unemployment rate, labour force participation (and thus employment) remains below its pre-recession peak for the overall youth population (Figure 3, Panel A). However, overall participation and employment rates paint a misleading picture of the youth labour market situation, as they do not account for important differences between students

¹ Evidence suggests that a growing number of PSE graduates are looking for career employment with significant work experience. The share of college graduates who have participated in a co-op program rose from 7 per cent in 1986 to 22 per cent in 2010, while it increased from 5 per cent to 12 per cent among those with a bachelor's degree. More generally, slightly more than one-half of students aged 20-24 group has combined school and work since the early 2000s.

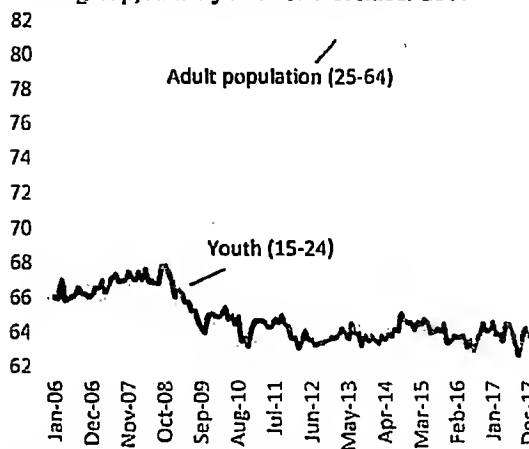
² About half of entry-level job vacancies in Canada require some work experience, with rates being higher for vacancies with higher educational requirement.

and non-students.³ Indeed, the decline in the overall participation rate for youth was overwhelmingly driven by a decline in labour force participation among *students aged 15-19* (Figure 3, Panel B).

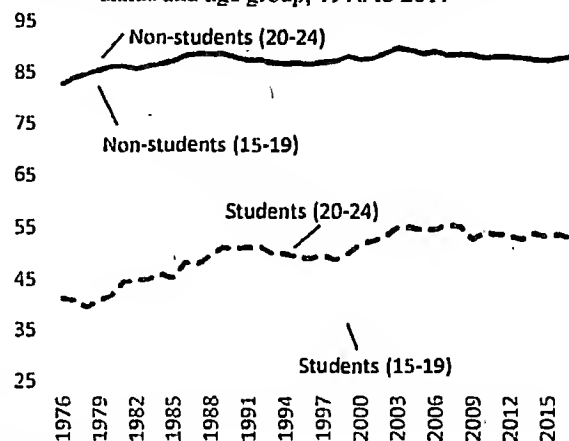
- Lower participation among students aged 15-19 arose from an increase in the proportion of this population who do not want to work – especially among 15-16 year-olds. This may partly reflect poor labour-market conditions – i.e., that remaining slack is disproportionately affecting young students.⁴ In this case, the youth participation rate may yet recover as the economy continues to improve. On the other hand, it could reflect a greater emphasis on school performance or simply less of a desire to work among Canadian teens, consistent with a long-term decline in participation among 15-16 year-olds since the late-1980s.

Figure 3: Labour force participation rates, per cent

Panel A: Labour force participation rates by age group, January 2006 to December 2017



Panel B: Labour force participation rates by student status and age group, 1976 to 2017



Note: Panel B covers school months (January-April and September-December).

Source: Statistics Canada, Labour Force Survey; Department of Finance calculations.

- Focusing on *non-student youth*, the participation rate has been quite stable, sitting slightly below pre-recession highs in 2017. Furthermore, the employment rate today is similar to the mid-1970s for young men and is significantly higher for young women (Figure 4, Panel A). However, job quality appears to have deteriorated for many younger workers, with a growing incidence of part-time and temporary jobs since the mid-1970s (Figure 4, Panel B).⁵

³ Aggregate labour force participation and employment rates should be interpreted with caution when applied to the youth labour market. This is because a growing number of young people are attending and staying longer in school; many of them tend to combine schooling with part-time work and/or job search; they often intersperse spells of inactivity with spells of work or job search; and the process of settling into the labour market is often prolonged and discontinuous. For these reasons, aggregate indicators of labour market performance for youth need to be disaggregated for students/non-students and supplemented with other indicators such as the proportion of youth in neither employment nor school.

⁴ Historically, the labour force participation of young students aged 15-19 has been very sensitive to overall labour-market conditions, displaying a highly cyclical "last in, first out" pattern over the course of the business cycle.

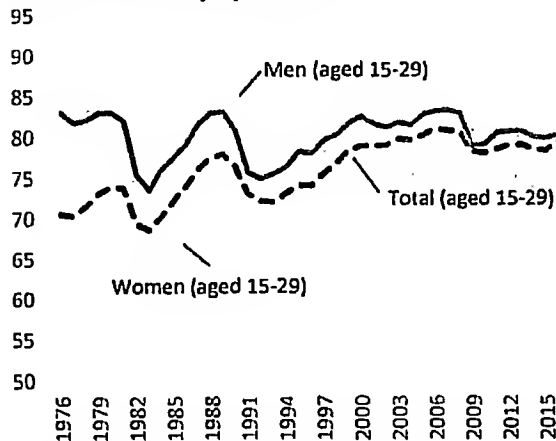
⁵ Part-time and temporary jobs are often associated with poorer labour conditions, including lower wages and job security, unpredictable scheduling, minimal training, and fewer non-wage benefits.

While the share of younger workers in part-time jobs stabilized in mid-1990s, the share of workers in temporary jobs (especially fixed-term or contract jobs) continued to grow.

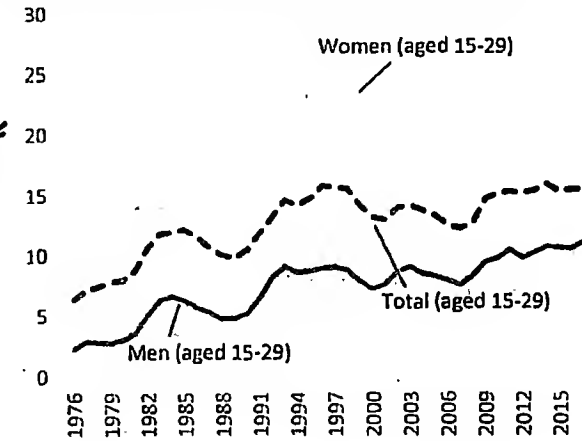
- As youth employment recovered from the 2009 recession, employment gains were concentrated in part-time and temporary jobs, leading to a lower share of younger workers in *full-time permanent* jobs today compared to before the recession (Figure 5, Panel A). While this increase in part-time and temporary jobs appears to be largely cyclical, it is too soon to tell whether more stable jobs will return as the economy recovers.

Figure 4: Labour market indicators for non-student youth, per cent, 1976 to 2017

Panel A: Youth employment rate



Panel B: Share of younger workers in part-time jobs



Note: Figure 4 covers non-students during school months.

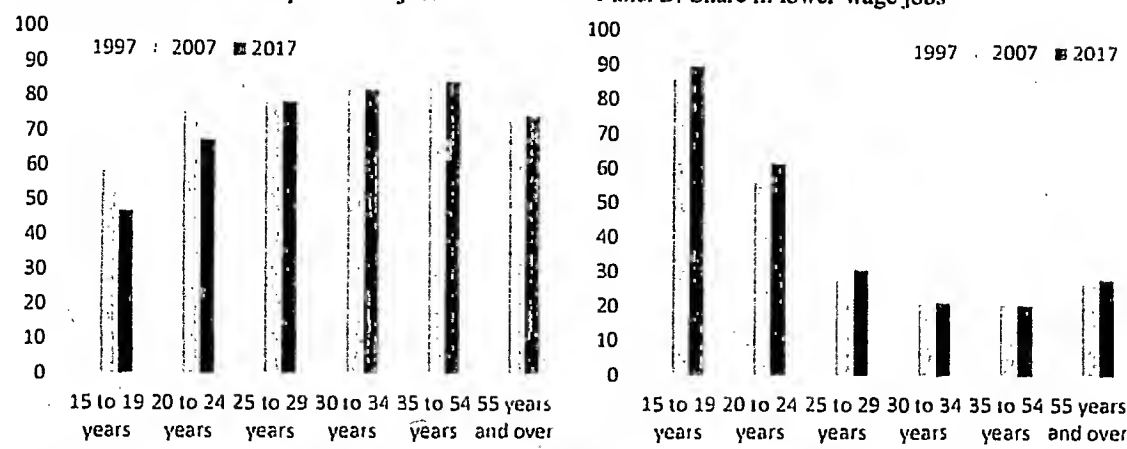
Source: Statistics Canada, Labour Force Survey; Department of Canada calculations.

- Although today's youth are finding it more difficult to access stable employment, most workers can still expect to find stable jobs as they get older. Indeed, while the share of youth in full-time permanent jobs has declined since 2007, the share of workers aged 30-34 with these jobs has been stable at about 82 per cent (Figure 5, Panel A). This suggests that non-standard jobs are typically a stepping-stone to full-time permanent employment.
- However, there is a growing concern that the weaker labour-market performance of today's youth, particularly those who entered the labour market during the recession, will persist into adulthood. Recent cohorts are faring as well as previous generations in terms of overall employment, but the decline in full-time permanent work among youth aged 25-29 may signal that younger workers are finding it more difficult to transition from school to work.
- One possible explanation is that, with increased PSE attendance (Figure 6, Panel A-B), youth aged 25-29 are increasingly composed of recent graduates who could be expected to have more difficulty attaining full-time permanent employment, because of fewer years of work experience compared with previous cohorts (who exited from school at younger ages). Younger cohorts may ultimately reach similar levels of full-time permanent employment and have higher lifetime earnings as they gain work experience.

Figure 5: Job quality indicators for non-student youth and adults, per cent, 1997, 2007 and 2017

Panel A: Share in full-time permanent jobs

Panel B: Share in lower-wage jobs



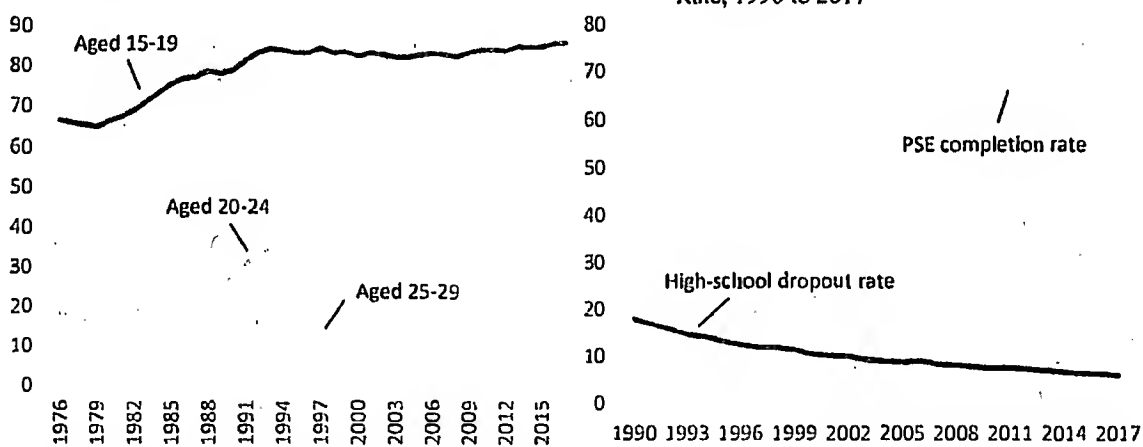
Note: Figure 5 covers non-student employees aged during school months. Lower-wage jobs pay less than two-thirds of the median wage of permanent full-time workers aged 25 to 54 years (about \$17 in 2016).
Source: Statistics Canada, Labour Force Survey; Department of Canada calculations.

- Evidence also shows that the wage gap between young and older workers widened in the 1980s and 1990s, but it has remained relatively stable since then. Although it is too soon to tell for the most recent cohorts, successively younger generations appear to have witnessed faster earnings growth as they accumulate experience. Moreover, while younger workers tend to have lower entry wages, most tend to move rapidly into higher-paid jobs as they accumulate work experience (Figure 5, Panel B).

Figure 6: Education indicators for youth, per cent

Panel A: School enrollment rate, 1976 to 2017

Panel B: High-school dropout rate and PSE completion Rate, 1990 to 2017



Note: Figure 6 covers school months. The completion rate is the share of youth aged 25-34 who have completed a PSE program. The dropout rate is the share of youth aged 20-29 without a high school diploma and who were not attending school.
Source: Statistics Canada, Labour Force Survey; Department of Canada calculations.

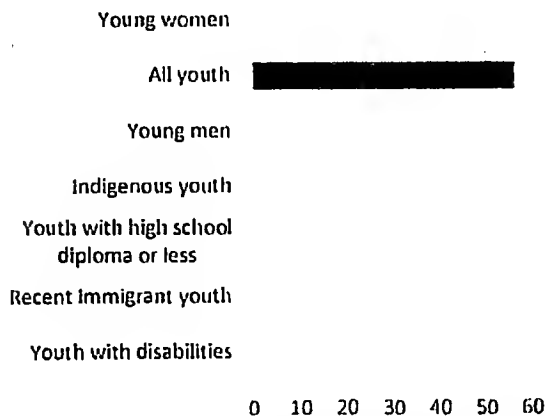
- Beyond wages and access to stable employment, other challenges faced by younger cohorts include lower access to non-wage benefits such as registered pension plans (especially for

men) and the prevalence of over-qualification among university graduates.⁶ Further analysis is needed to document and unpack trends in these dimensions of job quality.

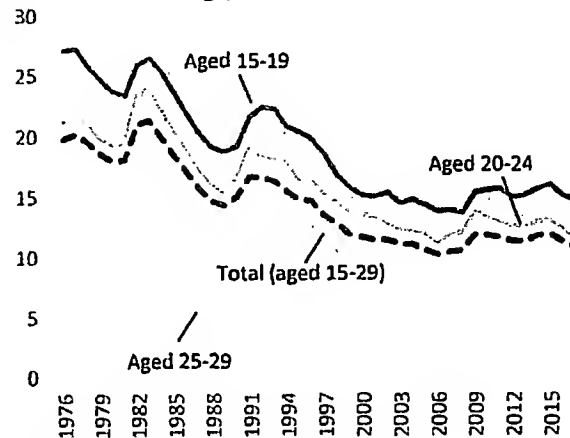
- Certain pockets of youth, such as recent immigrant youth, indigenous youth, youth with disabilities and youth in rural or remote areas, have consistently performed worse in terms of overall employment, earnings and many other indicators of labour-market success (Figure 7, Panel A). These groups tend to face unique challenges, including lower levels of education, which lead to greater vulnerability in the labour market.

Figure 7: Vulnerable groups of youth, per cent

Panel A: Employment rate, 2017



Panel B: Share of youth not in employment, education or training (NEET), 1976 to 2017



Note: In Panel A, the employment rate for youth with disabilities is from 2012. Panel B covers school months.
Source: Statistics Canada, Labour Force Survey; Department of Canada calculations.

- Of particular concern are youth who are not in employment, education or training (NEET) – a subset of youth seen to be at risk of becoming socially excluded. In 2017, about 10.8 per cent of youth aged 15-29 were NEET, including about 4.3 per cent in unemployment and 6.5 per cent out of the labour force (Figure 7, Panel B). Even fewer appear to be in a permanent state of detachment, with only about half of this group in NEET on a full-year basis.⁷ The NEET rate is close to historical lows and well below the OECD average.⁸

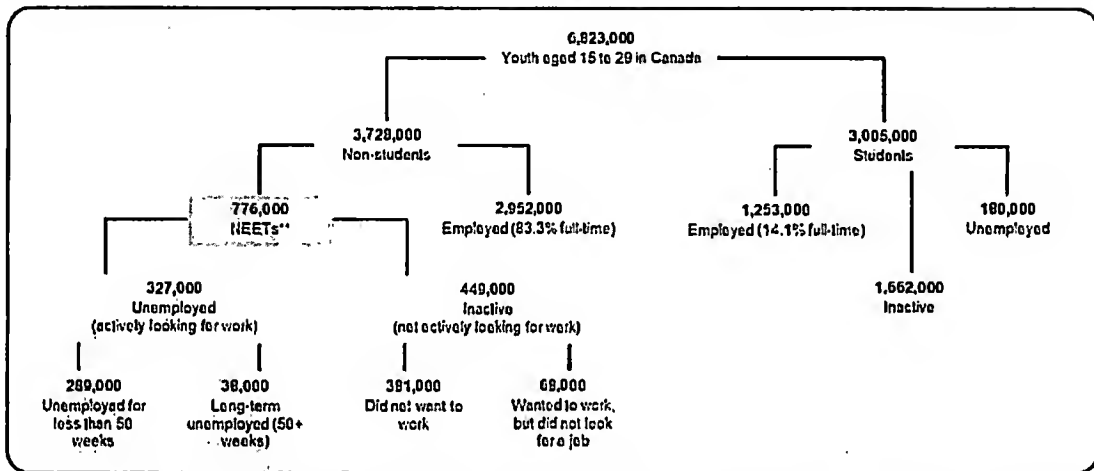
⁶ In 2011, the proportion of university graduates working in occupations requiring a high school education or less was 17.7 per cent for men and 18.3 per cent for women, with higher rates among immigrants (especially women) and graduates with fields of study outside of science, technology, engineering and mathematics (STEM) and education.

⁷ While NEET does capture many at-risk youth, young persons may also be NEET as a personal choice (e.g., travel, leisure, volunteering) or due to non-economic constraints (e.g., raising children). In 2009, only 5 per cent of individuals were NEET on a year-round basis. Moreover, less than half of this group had also been NEET in 2007, indicating that the NEET state was persistent or recurrent for only 2 per cent of youth.

⁸ The long-term decline in the NEET rate mainly reflects an influx of women into the labour force and higher school enrollment rates. The NEET population is equally divided between men and women, and mostly consists of older youth aged 20-29.

- More generally, lower levels of education are strongly associated with higher risks of unemployment and social exclusion.⁹ For example, in 2017, the unemployment rate of non-student youth aged 20-29 with a university degree was 6.0 per cent compared to 15.7 per cent for those with less than high school. Moreover, in 2017, the proportion of youth aged 20-29 that are NEET was four times higher for youth with less than high school relative to university graduates (36.7 per cent versus 8.9 per cent).
- Most evidence suggests that young persons who leave school early to enter the labour market full-time are less likely to complete PSE and thus have significantly worse labour-market prospects. For instance, about 40 per cent of younger workers aged 25-34 without PSE are in lower-wage jobs (i.e., earning less than \$17 per hour) compared to less than 25 per cent of younger workers with PSE.

Figure 8: The landscape of the Canadian youth population, number of persons, 2017*



Note: * Annual estimates are based on an average of January-March (2017) as per OECD standards. ** Not in Education, Employment or Training (NEET). Source: Statistics Canada, Labour Force Survey; Department of Finance calculations.

Policy Implications

- The federal government provides extensive supports aimed at helping youth achieve their full potential, including important financial support to young people in PSE. More recently, the Government has taken important steps to make PSE more affordable by increasing Canada Student Grants amounts by 50 per cent for students from low- and middle-income families and part-time students starting in school year 2016-17.


⁹ Although the high-school dropout rate has declined, there were still 305,000 youth aged 20-29 without a high school diploma and who were not attending school, representing 6.3 per cent of this population in 2017 (Figure 6, Panel B).

- The Government also has a number of new youth initiatives under development, including the launch of a Youth Policy that will act as an umbrella for the federal government's youth initiatives and the launch of the Youth Service Initiative. The Government is also working on a renewed Youth Employment Strategy (YES), which covers several programs that support skills development among at-risk youth, provide wage subsidies to employers to create summer jobs, and help PSE graduates transition to the labour market. Results achieved to date under recent policy and funding actions include: 84,000 job placements under the YES, 83,000 youth served under the Aboriginal Skills and Employment Training Strategy (ASETS), and 6,500 new work-integrated learning placements in STEM fields.



s.21(1)(a)

s.21(1)(b)

 Department of Finance Canada Ministère des Finances Canada	
For Signature by / Information of À signer par / Pour l'information de	
Minister of Finance	
Prepared by (name/initials/division) Préparé par (nom/initiales/division)	
Evan Capeluck <i>EC</i>	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	
Approved by / Approuvé par	
Director Directrice / Directeur	Julie Turcotte <i>JT</i>
Director General Directrice générale / Directeur général	Claude Lavoie <i>CL</i>
Associate Assistant Deputy Minister Sous-ministre adjoint Délégué	Alison McDermott
Assistant Deputy Minister Sous-ministre adjoint	Nick Leswick <i>NL</i>
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre déléguée	
Deputy Minister Sous-ministre	Paul Rochon
Remarks / Remarques:	
SUBJECT / OBJET:	
Canada's Youth Labour Market	
File no. / No de dossier	Date
2018FIN467281	JAN 08 2018

Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant (Sign on behalf of DM) du Canada au G7 (Signer au nom du SM)	<input type="checkbox"/>
Associate Deputy Minister Sous-ministre déléguée (Sign on behalf of DM) (Signer au nom du SM)	<input type="checkbox"/>
Assistant Deputy Minister Sous-ministre adjoint(e) (Sign on behalf of DM) (Signer au nom du SM)	<input type="checkbox"/>